Natural Resource Taxes

Coal Severance Tax
Electrical Energy Tax
Metalliferous Mines Tax
Natural Gas Production Tax
Oil Production Tax
US Mineral Royalty
Wholesale Energy

Legislative Fiscal Division

www.leg.state.us/fiscal/

COAL SEVERANCE TAX

Revenue Description: For large producers, the coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year. However, producers of 50,000 tons or less in any calendar year are exempt from the tax.

Applicable Tax Rate(s):
10.0% - on coal with a heating quality < 7,000 BTU
15.0% - on coal with a heating quality ≥ 7,000 BTU

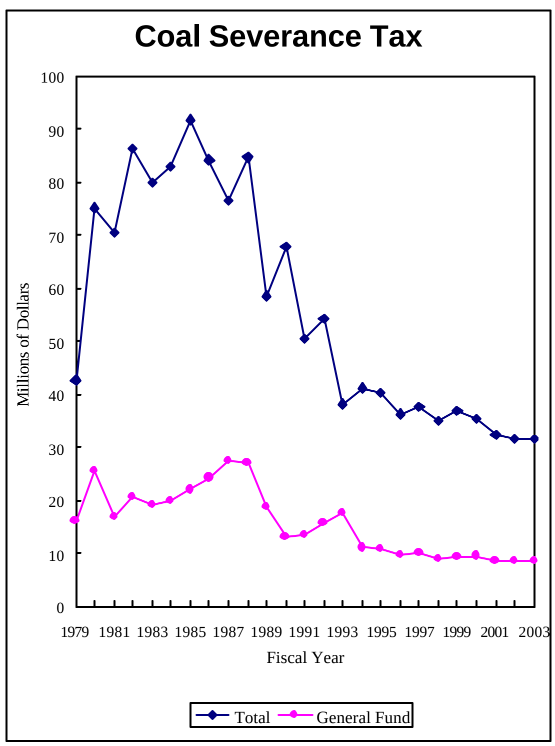
Distribution: (Percentage)

Account Name	Fiscal 1998-1999	Fiscal 2000-2003	Fiscal 2004-2007
Permanent Trust	25.00	0.00	12.50
Treasure State Endowment	25.00	37.50	25.00
TSEP Regional Water	0.00	12.50	12.50
General Fund	25.25	26.79	26.79
LRBP - Cash Account	12.00	12.00	12.00
LRBP - Debt Service	1.30	0.00	0.00
Park Acquisition Trust	1.27	1.27	1.27
Cultural Trust	0.00	0.63	0.63
Cultural & Aesthetic Projects	0.87	0.00	0.00
Water Development	0.95	0.95	0.95
Other Uses:	8.36	8.36	8.36

"Other Uses" Include:
Local Impact (Coal Board)
County Land Planning
Growth Through Agriculture
State Library
Conservation Districts

Revenue Projection:

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1979	42.689164	16.008492	
A	1980	75.125009	25.432649	0.588700
A	1981	70.415073	16.899657	-0.335500
A	1982	86.186886	20.684883	0.224000
A	1983	80.045016	19.210830	-0.071300
A	1984	82.823427	19.877640	0.034700
A	1985	91.748855	22.019726	0.107800
A	1986	84.217223	24.212459	0.099600
A	1987	76.546602	27.394944	0.131400
A	1988	84.638333	27.177382	-0.007900
A	1989	58.565583	18.805414	-0.308000
A	1990	67.870544	13.024366	-0.307400
A	1991	50.457848	13.517663	0.037900
A	1992	54.114107	15.778084	0.167200
A	1993	38.181298	17.744422	0.124600
A	1994	41.200704	11.046468	-0.377500
A	1995	40.416416	10.827741	-0.019800
A	1996	36.260949	9.714308	-0.102800
A	1997	37.740212	10.110603	0.040800
A	1998	35.045243	8.848924	-0.124800
A	1999	36.767488	9.283791	0.049100
A	2000	35.469791	9.502357	0.023500
A	2001	32.337172	8.663128	-0.088300
F	2002	31.578947	8.460000	-0.023400
F	2003	31.578947	8.460000	0.000000



(in millions)	Fiscal 2002 HJR	Fiscal 2002 Exec	Fiscal 2002 LFD	Fiscal 2003 HJR	Fiscal 2003 Exec	Fiscal 2003 LFD
Estimates	$9.073	$8.531	$8.460	$9.058	$8.626	$8.460
Difference	-	(0.542)	(0.613)	-	(0.432)	(0.598)

ELECTRICAL ENERGY TAX

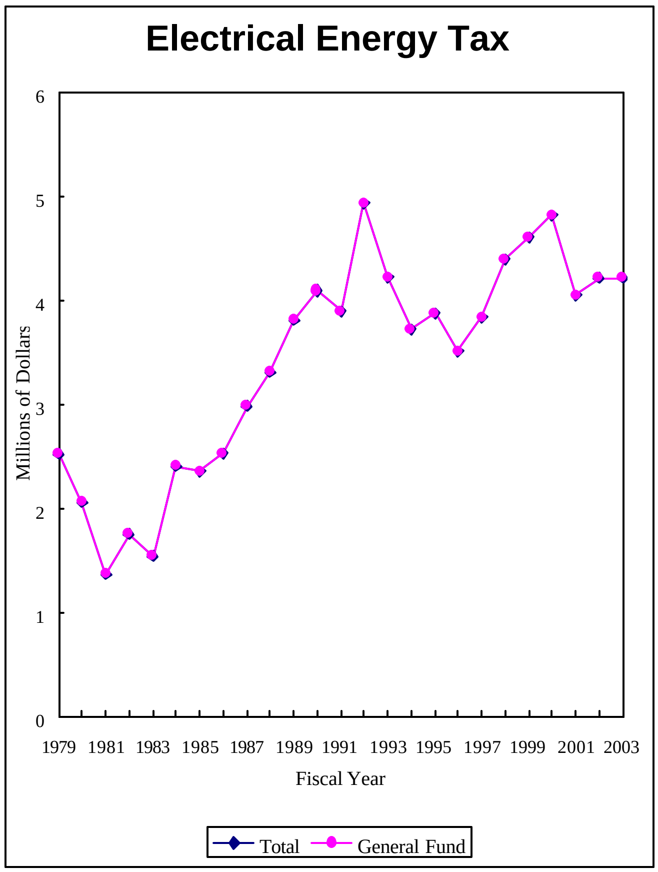
Revenue Description: The electrical energy license tax is imposed on each person or organization engaged in generating, manufacturing, or producing electrical energy in Montana. This tax is in addition to the wholesale energy transaction tax enacted by the 1999 legislature (HB 174).

Applicable Tax Rate(s): The tax of $0.0002 per kilowatt-hour is levied against all electrical energy produced within the state. A deduction is allowed for "actual and necessary" energy use by the plant for the production of the energy. Electrical energy taxes may be reduced by an interest differential credit claimed by the producers. This credit is determined by the difference between the actual interest received on energy conservation loans and the average interest rate for home improvement loans.

Distribution: All proceeds are deposited into the general fund.

Revenue Projection:

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1979	2.523707	2.523707	
A	1980	2.060960	2.060960	-18.34%
A	1981	1.367959	1.367959	-33.63%
A	1982	1.753173	1.753173	28.16%
A	1983	1.546157	1.546157	-11.81%
A	1984	2.413172	2.413172	56.08%
A	1985	2.361855	2.361855	-2.13%
A	1986	2.530403	2.530403	7.14%
A	1987	2.991861	2.991861	18.24%
A	1988	3.311082	3.311082	10.67%
A	1989	3.815964	3.815964	15.25%
A	1990	4.100543	4.100543	7.46%
A	1991	3.906194	3.906194	-4.74%
A	1992	4.937510	4.937510	26.40%
A	1993	4.232200	4.232200	-14.28%
A	1994	3.728365	3.728365	-11.90%
A	1995	3.885910	3.885910	4.23%
A	1996	3.520407	3.520407	-9.41%
A	1997	3.849052	3.849052	9.34%
A	1998	4.401728	4.401728	14.36%
A	1999	4.618433	4.618433	4.92%
A	2000	4.829002	4.829002	4.56%
A	2001	4.057952	4.057952	-15.97%
F	2002	4.217000	4.217000	3.92%
F	2003	4.217000	4.217000	0.00%



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	$4.644	$4.506	$4.217	$4.664	$4.506	$4.217
Difference	-	(0.138)	(0.427)	-	(0.158)	(0.447)

METALLIFEROUS MINES TAX

Revenue Description: The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The tax rate is applied to the gross value of the product, which is defined as the market value of the commodity multiplied by the quantity produced.

Applicable Tax Rate(s): The tax rate is as follows:

For concentrates shipped to a smelter, mill, or reduction work:		For gold, silver, or any platinum group metal that is dore*, bullion, or matte* and that is shipped to a refinery:	
Gross Value	Rate	Gross Value	Rate
$0-$250,000	Exempt	$0-$250,000	Exempt
$250,001 and Above	1.81%	$250,001 and Above	1.6%
		* Dore: A mixture of gold and silver in cast bars Matte: A crude mixture of sulfides formed in smelting sulfide ores of metals	

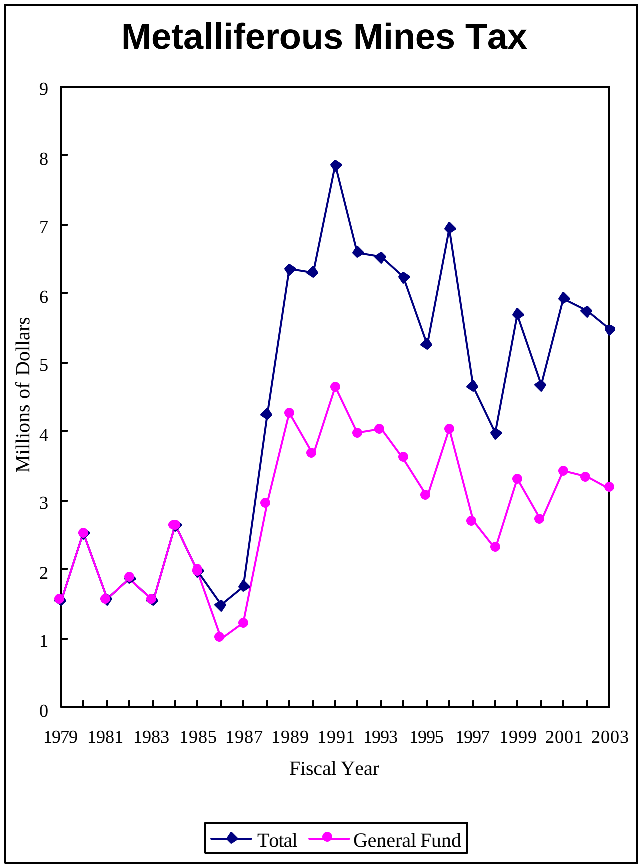
Distribution: The distribution of the metal mines tax has been altered several times during the 1990s. The 2001 legislature enacted Senate Bill 484 (effective July 1, 2002) that creates a hard-rock mining reclamation debt service fund to pay debt service on the $8.0 million of bonds authorized for state costs related to hard-rock mining reclamation, operation, and maintenance. The 8.5 percent allocation of metalliferous mines tax previously allocated to the orphan share account is now allocated to the hard-rock mining reclamation debt service fund. The table below shows recent historical distributions of the tax.

Distribution of Metalliferous Mines Tax (Percent)

	Fiscal 1994-1995	Fiscal 1996-1997	Fiscal 1998-2002	Fiscal 2003&Beyond
General Fund	58.0	58.0	58.0	58.0
RIT Trust	15.5	0.0	0.0	0.0
Groundwater Assessment	0.0	2.2	0.0	0.0
Abandoned Mines	0.0	8.5	0.0	0.0
Orphan Share	0.0	0.0	8.5	0.0
Hard Rock Reclamation Debt Service	0.0	0.0	0.0	8.5
Reclamation & Dev. Grants	0.0	4.8	7.0	7.0
Hard Rock Mining	1.5	1.5	2.5	2.5
Counties	25.0	25.0	24.0	24.0

Revenue Projection:

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1979	1.544518	1.544518	
A	1980	2.516820	2.516820	62.95%
A	1981	1.564569	1.564569	-37.84%
A	1982	1.861208	1.861208	18.96%
A	1983	1.542061	1.542061	-17.15%
A	1984	2.630135	2.630135	70.56%
A	1985	1.977324	1.977324	-24.82%
A	1986	1.479993	0.989852	-49.94%
A	1987	1.756121	1.211030	22.34%
A	1988	4.248913	2.961778	144.57%
A	1989	6.355005	4.257531	43.75%
A	1990	6.306356	3.664579	-13.93%
A	1991	7.855130	4.638654	26.58%
A	1992	6.595466	3.965609	-14.51%
A	1993	6.521077	4.030946	1.65%
A	1994	6.229683	3.613074	-10.37%
A	1995	5.259335	3.050414	-15.57%
A	1996	6.941131	4.025856	31.98%
A	1997	4.648563	2.696167	-33.03%
A	1998	3.977699	2.306801	-14.44%
A	1999	5.700013	3.305971	43.31%
A	2000	4.661371	2.703031	-18.24%
A	2001	5.923752	3.417475	26.43%
F	2002	5.739655	3.329000	-2.59%
F	2003	5.475862	3.176000	-4.60%



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	$4.706	$3.329	$3.329	$4.553	$3.408	$3.176
Difference	-	(1.377)	(1.377)	-	(1.145)	(1.377)

OIL PRODUCTION TAX

Revenue Description: The oil production tax is imposed on the production of petroleum and other mineral or crude oil in the state. Gross taxable value of oil production is based on the type of well and type of production.

Applicable Tax Rate(s): The oil production tax has numerous tax rates and distribution percentages depending on several factors. These factors include whether the oil is produced from a stripper well, an incentive well, from a well initially drilled before 1999 or after, from a well newly drilled within the last year or two, and whether the interest being taxed is the working interest or the royalty interest. The following table shows tax rates and distribution percentages for each type of pre-1999 oil and post-1999 oil. The 2001 legislature enacted House Bill 572 that further allocates the RIT share of the tax.

Oil Production Tax Rates and Distribution of Revenue
Beginning January 1, 2000

	Tax Rate	Local Share	State Share	RIT Share *	P&L Share	Gen. Fund Share
Working Interests						
Pre 99 after 12 Months	12.80%	60.70%	39.30%	8.62%	5.17%	86.21%
Post 99 First 12 Months	0.80%	0.00%	100.00%	62.50%	37.50%	0.00%
Post 99 after 12 months	9.30%	60.70%	39.30%	8.62%	5.17%	86.21%
Stripper 4-10 barrels per day	5.80%	86.20%	13.80%	62.50%	37.50%	0.00%
Stripper 11-15 barrels per day	9.30%	60.70%	39.30%	8.62%	5.17%	86.21%
Stripper Well Exemption	0.80%	0.00%	100.00%	0.625	0.375	0.00%
Pre99 Horizontal after 18 months	12.80%	60.70%	39.30%	8.62%	5.17%	86.21%
Post 99 Horizontal first 18 months	0.80%	0.00%	100.00%	62.50%	37.50%	0.00%
Post 99 Horizontal after 18 months	9.30%	60.70%	39.30%	8.62%	5.17%	86.21%
Incremental - secondary	8.80%	60.70%	39.30%	8.62%	5.17%	86.21%
Incremental - tertiary	6.10%	60.70%	39.30%	8.62%	5.17%	86.21%
Pre99 Horizontal Recomp - after 18 months	12.80%	60.70%	39.30%	8.62%	5.17%	86.21%
Post99 Horizontal Recomp - first 18 months	5.80%	0.00%	100.00%	8.62%	5.17%	86.21%
Post99 Horizontal Recomp - after 18 months	9.30%	60.70%	39.30%	8.62%	5.17%	86.21%
Royalty interests	15.10%	60.70%	39.30%	8.62%	5.17%	86.21%

* Effective July 1 after the Governor certifies that the resource indemnity trust fund balance has reached $100 million, House Bill 572 further allocates the 62.50% and 8.62 % allocations of the RIT share as follows: After deducting the oil production tax portion of the $400,000 deposited to the coal bed methane account (HB 572), the remainder is deposted 50% to the reclamation and development account and 50% to the orphan share account. These further allocations terminate June 30, 2011.

Distribution: Once the oil production tax has been collected, it is divided into a local share and a state share. The state share is further allocated to the general fund, the resource indemnity trust, and a state special revenue account for use by the Board of Oil and Gas Conservation. Specific distribution percentages are found in the table above.

LFD COMMENT

General fund collections of oil production tax revenues are ahead of last year due to slightly higher production and much higher prices. The LFD estimate of oil production tax revenue for fiscal 2002 is $11.1 million and the executive estimate is $11.7 million. The major reason for the difference is that the executive projects slightly higher oil prices.

The LFD estimate of oil production tax revenue for fiscal 2003 is $10.3 million and the executive estimate is $11.4 million. The difference is mainly due to a difference in projected oil prices. The LFD assumes Montana oil prices will be $19.20 in calendar 2002 and $18.91 in calendar 2003. The executive assumes Montana oil prices will be $21.02 in calendar 2002 and $19.99 in calendar 2003.

NATURAL GAS PRODUCTION TAX

Revenue Description: The natural gas production tax is applied to the gross value of gas produced in the state based on the type of well and type of production.

Applicable Tax Rate(s): The natural gas production tax has many tax rates and distribution percentages depending on several factors. These factors include whether the natural gas is produced from a stripper well, from a well initially drilled before 1999, or after, from a well newly drilled within the last year or two, and whether the interest being taxed is the working interest or the royalty interest. The table below shows tax rates and distribution percentages for each type of natural gas. The 2001 legislature enacted House Bill 572 that further allocates the RIT share of the tax.

Natural Gas Production Tax and Distribution of Revenue
January 1, 2001

	Tax Rate	Local Share	State Share	RIT Share *	P&L Share	Gen. Fund Share
Working Interests						
Pre-99 after 12 months	15.10%	86.00%	14.00%	14.50%	8.70%	76.80%
Post 99 first 12 months	0.80%	0.00%	100.00%	62.50%	37.50%	0.00%
Post 99 after 12 months	9.30%	86.00%	14.00%	14.50%	8.70%	76.80%
Pre 99 stripper wells	11.30%	86.00%	14.00%	14.50%	8.70%	76.80%
Horizontal first 18 months	0.80%	0.00%	100.00%	62.50%	37.50%	0.00%
Horizontal after 18 months	9.30%	86.00%	14.00%	14.50%	8.70%	76.80%
Royalty Interests	11.30%	86.00%	14.00%	14.50%	8.70%	76.80%

* Effective July 1 after the Governor certifies that the resource indemnity trust fund balance has reached $100 million, House Bill 572 further allocates the 14.5% and 62.5 % allocations of the RIT share as follows: After deducting the natural gas production tax portion of the $400,000 deposited to the coal bed methane account (HB 572), the remainder is deposted 50% to the reclamation and development account and 50% to the orphan share account. These further allocations terminate June 30, 2011.

Distribution: The natural gas production is divided into a local share and a state share. The state share is further allocated to the general fund, the resource indemnity trust, and to a state special revenue account for use by the Board of Oil and Gas Conservation. Specific distribution percentages are found in the table above.

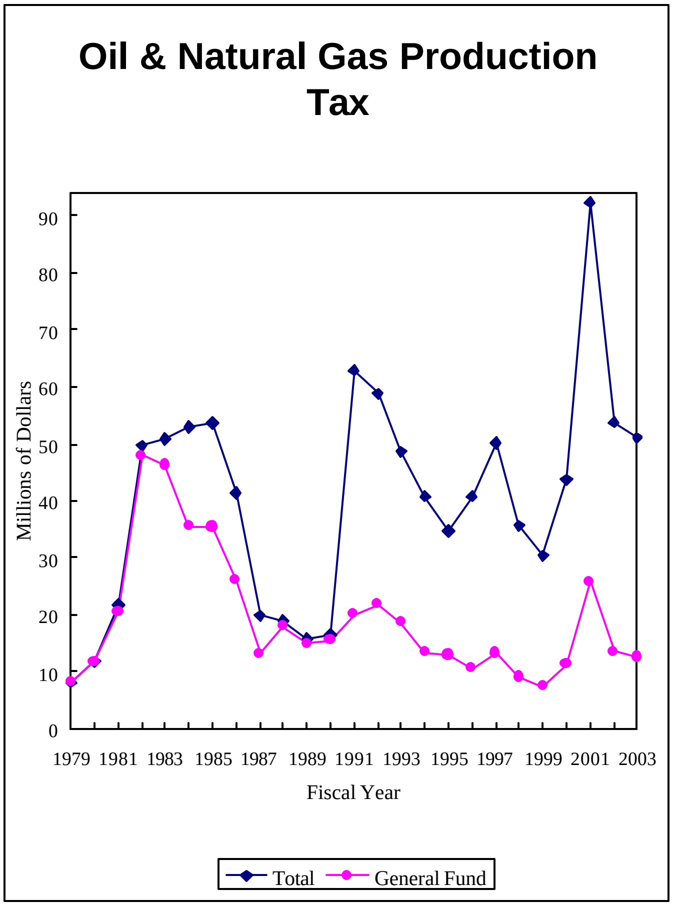
LFD COMMENT

General fund collections of natural gas production tax revenues are ahead of last year due to slightly higher production and increased prices. The LFD estimate of natural gas production tax revenue for fiscal 2002 is equal to the executive projection, $2.5 million.

The LFD estimate of natural gas production tax revenue for fiscal 2003 is $2.3 million and the executive estimate is $2.5 million. The difference is mainly due to a difference in projected natural gas prices (the executive is higher) and in production (the executive is lower). The LFD assumes Montana natural gas prices will be $2.68 in calendar 2002 and $2.28 in calendar 2003. The executive assumes Montana natural gas prices will be $2.76 in calendar 2002 and $2.77 in calendar 2003. The LFD projects that production will be 85.8 MMCF in calendar 2002 and 93.0 MCF in calendar 2003. The executive projects production of 81.9 MMCF in calendar 2002 and 86.0 MMCF in calendar 2003. In calendar 2001 natural gas production was 76.7 MMCF, up from 66.0 MMCF in calendar 2000. Montana natural gas prices averaged $3.18 in calendar 2001, up from $2.90 in calendar 2000.

Revenue Projection:

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1979	8.207677	8.207677	
A	1980	11.808579	11.808579	43.87%
A	1981	21.762357	20.535761	73.91%
A	1982	49.776135	47.948236	133.49%
A	1983	50.873263	46.313019	-3.41%
A	1984	52.977130	35.484010	-23.38%
A	1985	53.667357	35.472434	-0.03%
A	1986	41.441086	26.043170	-26.58%
A	1987	19.904239	13.254877	-49.10%
A	1988	18.913097	17.975582	35.61%
A	1989	15.748241	14.959251	-16.78%
A	1990	16.486405	15.567426	4.07%
A	1991	62.879742	20.163269	29.52%
A	1992	58.892324	21.822893	8.23%
A	1993	48.650604	18.676586	-14.42%
A	1994	40.871318	13.403408	-28.23%
A	1995	34.704332	12.963887	-3.28%
A	1996	40.826475	10.665986	-17.73%
A	1997	50.150068	13.283093	24.54%
A	1998	35.709042	9.120152	-31.34%
A	1999	30.446634	7.505617	-17.70%
A	2000	43.772950	11.362741	51.39%
A	2001	92.396335	25.791723	126.99%
F	2002	53.788000	13.613000	-47.22%
F	2003	51.103000	12.588000	-7.53%



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	$12.407	$14.259	$13.613	$11.984	$13.819	$12.588
Difference	-	1.852	1.206	-	1.835	0.604

* This table includes Oil & Natural Gas production combined

US MINERAL ROYALTY

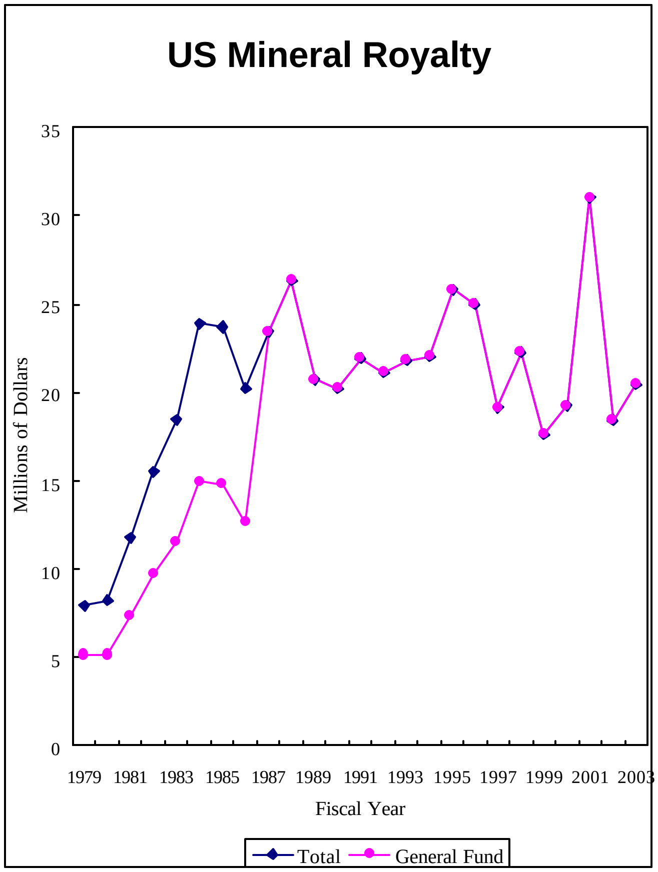
Revenue Description: Under the federal Mineral Lands Leasing Act (30 USC, Section 191), 50.0 percent of all sales, bonuses, royalties, and rentals received from federal lands in Montana must be paid to the state. The money is to be used as the legislature may direct, giving priority to those subdivisions of the state socially or economically impacted by development of minerals leased under the federal act. The revenue produced on federal public lands includes royalties and bonuses from oil, gas, coal, and other mineral exploration and extraction.

Applicable Tax Rate(s): N/A

Distribution: All receipts are deposited into the general fund.

Revenue Projection:

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1979	7.970116	5.148922	
A	1980	8.233983	5.146239	-0.05%
A	1981	11.808646	7.380404	43.41%
A	1982	15.508995	9.693122	31.34%
A	1983	18.468843	11.543027	19.08%
A	1984	23.917880	14.948556	29.50%
A	1985	23.708214	14.817634	-0.88%
A	1986	20.207422	12.629639	-14.77%
A	1987	23.433021	23.433021	85.54%
A	1988	26.327798	26.327798	12.35%
A	1989	20.727404	20.727404	-21.27%
A	1990	20.240644	20.240644	-2.35%
A	1991	21.928394	21.928394	8.34%
A	1992	21.150278	21.150278	-3.55%
A	1993	21.799728	21.799728	3.07%
A	1994	22.052161	22.052161	1.16%
A	1995	25.847747	25.847747	17.21%
A	1996	24.958952	24.958952	-3.44%
A	1997	19.161163	19.161163	-23.23%
A	1998	22.240950	22.240950	16.07%
A	1999	17.650315	17.650315	-20.64%
A	2000	19.242954	19.242954	9.02%
A	2001	31.007874	31.007874	61.14%
F	2002	18.409000	18.409000	-40.63%
F	2003	20.474000	20.474000	11.22%



LFD Comment:

LFD projections for the U.S. mineral royalty collections differ from the executive estimate in fiscal 2002 only. The executive projection is the same as the HJR 2 estimate of $21.8 million, while the LFD reduced the projection to $18.4 million.

The LFD projections are based on collections through May plus estimated amounts for the remainder of the year provided by the federal Mineral Management Services. Montana expected fiscal 2002 collections of $21.8 million, but because of a court ordered shutdown of the Mineral Management Services Internet site, Montana has been receiving estimated, as opposed to actual, payments of US mineral royalties. The order has now been lifted and the LFD anticipates that there will be corrections to the fiscal 2002 payments in fiscal 2003. An opinion issued by Greg Petesch, Director of Legal Services, indicates that if these corrections cause the total amount received in fiscal 2003 to exceed the HJR 2 estimate, the excess must be distributed to eligible counties under House Bill 226 enacted by the 2001 legislature. The executive projection includes a biennial increase over the HJR 2 estimates of $8.1 million, but anticipates that this increase will be distributed to eligible counties and not to the general fund based on their interpretation of House Bill 226.

U.S. Mineral Royalty (in millions)

	Fiscal Year	Collections* July- May Actual	Collections* Estimated June	Total G.F.
LFD	2002	$13.635	$4.774	$18.409
	2003	n/a		21.756
Executive	2002	13.635	8.121	21.756
	2003	n/a		21.756

* The executive expects collections to be $8.1 million higher for the biennium with the excess going to county governments and not to the general fund.

(in millions)	Fiscal 2002 HJR	Fiscal 2002 Exec	Fiscal 2002 LFD	Fiscal 2003 HJR	Fiscal 2003 Exec	Fiscal 2003 LFD
Estimates	$21.756	$21.756	$18.409	$20.474	$20.474	$20.474
Difference	-	0.000	(3.347)	-	0.000	0.000

WHOLESALE ENERGY TAX

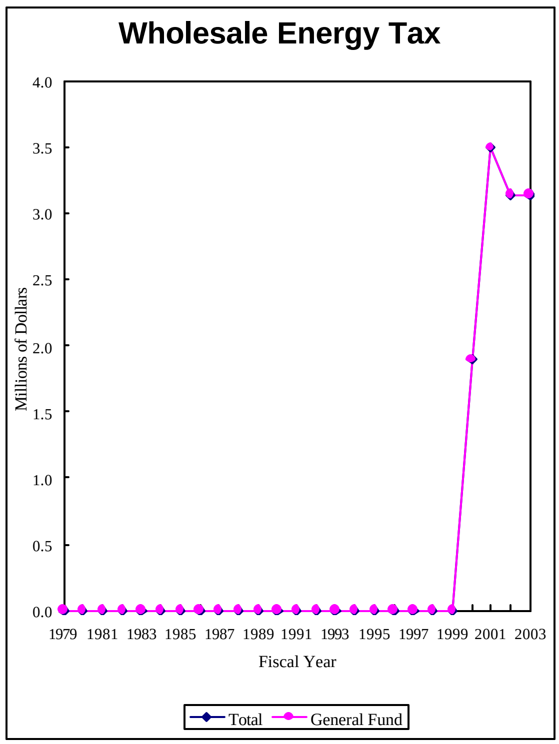
Revenue Description: The wholesale energy transaction tax, enacted by the 1999 legislature (HB 174) and effective January 1, 2000, is imposed on the amount of electricity transmitted by a transmission services provider in the state.

Applicable Tax Rate(s): The current tax rate of 0.015 cent is applied to the number of kilowatt hours transmitted. If the electricity is produced in-state and sold out-of-state, the taxpayer is the person(s) owning the electrical generation property, and the tax is collected by the transmission services provider. If the electricity is produced in-state for delivery in-state, or is produced outside the state for delivery in-state, the taxpayer is the distribution services provider, and the tax is collected by the transmission services provider. The tax does not apply to: 1) electricity that is transmitted through the state that is neither produced nor consumed in the state; 2) electricity generated in the state by an agency of the federal government for delivery outside the state; 3) electricity delivered to a distribution services provider that is a municipal utility or a rural electric cooperative which opts out of competition under HB 390 (1997 legislature); 4) electricity delivered to a purchaser that received its power directly from a transmission or distribution facility owned by an entity of the US government; 5) electricity meeting certain contractual requirements that is delivered by a distribution services provider that was first served by a public utility after December 31, 1996; and 6) electricity that has been subject to the transmission tax in another state.

Distribution: All proceeds are deposited into the general fund.

Revenue Projection:

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1979	0.000000	0.000000	
A	1980	0.000000	0.000000	Not App.
A	1981	0.000000	0.000000	Not App.
A	1982	0.000000	0.000000	Not App.
A	1983	0.000000	0.000000	Not App.
A	1984	0.000000	0.000000	Not App.
A	1985	0.000000	0.000000	Not App.
A	1986	0.000000	0.000000	Not App.
A	1987	0.000000	0.000000	Not App.
A	1988	0.000000	0.000000	Not App.
A	1989	0.000000	0.000000	Not App.
A	1990	0.000000	0.000000	Not App.
A	1991	0.000000	0.000000	Not App.
A	1992	0.000000	0.000000	Not App.
A	1993	0.000000	0.000000	Not App.
A	1994	0.000000	0.000000	Not App.
A	1995	0.000000	0.000000	Not App.
A	1996	0.000000	0.000000	Not App.
A	1997	0.000000	0.000000	Not App.
A	1998	0.000000	0.000000	Not App.
A	1999	0.000000	0.000000	Not App.
A	2000	1.894704	1.894704	Not App.
A	2001	3.503427	3.503427	84.91%
F	2002	3.143000	3.143000	-10.29%
F	2003	3.143000	3.143000	0.00%



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	$3.568	$2.906	$3.143	$3.614	$3.332	$3.143
Difference	-	(0.662)	(0.425)	-	(0.282)	(0.471)